

Message Text

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ACTION EUR-12

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E.O. 11652: N/A
TAGS: EFIN, IT
SUBJECT: AMBASSADOR'S MEETING WITH NEW FINANCE MINISTER MALFATTI

1. SUMMARY. THE AMBASSADOR MET WITH NEW FINANCE MINISTER MALFATTI OVER LUNCH ON FRIDAY, APRIL 14. DURING THE COURSE OF THE CONVERSATION, THEY TOUCHED ON ITALY'S EFFORTS TO IMPROVE ITS FISCAL SYSTEM AND BILATERAL ISSUES, INCLUDING IRS ASSISTANCE TO THE MINISTRY OF FINANCE. END SUMMARY.

2. MINISTER MALFATTI INDICATED THAT THE FISCAL REFORM OF 1971 PROVIDED THE LEGISLATIVE BASIS FOR REVAMPING ITALY'S TAX SYSTEM. WHAT IS NEEDED NOW, HE SAID, IS A MAJOR IMPROVEMENT IN THE ADMINISTRATIVE MACHINERY. IN THIS CONNECTION, HE NOTED THAT DURING THE NEXT 18 MONTHS HE PLANS TO STREAMLINE THE OPERATIONS OF THE MINISTRY OF FINANCE AND ITS REGIONAL AND LOCAL OFFICES. HE INDICATED THAT THE MOST SERIOUS WEAKNESS IN THE PRESENT SYSTEM IS IN THE AREA OF REVIEWING RETURNS FOR POSSIBLE AUDITING. UNDER THE REFORM, HE PLANS TO USE THE REGIONAL OFFICES FOR ROUTINE MATTERS, SUCH AS RECEIVING TAX RETURNS, WHILE HAVING THE LOCAL OFFICES FOCUS ON PERFORMING INDIVIDUAL AUDITS. A SPECIAL GROUP OF THE GUARDIA DI FINANZA

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(FISCAL POLICE) IS CURRENTLY BEING TRAINED TO CONDUCT SPECIAL AUDITS OF RETURNS FOR BOTH VALUE-ADDED TAX AND DIRECT TAXES.

3. WITH RESPECT TO PENALTIES FOR TAX EVADERS, THE MINISTER BELIEVED THAT NEW LEGISLATION IS REQUIRED. HE SAID THE PRESENT SYSTEM, WHICH REQUIRES THE COMPLETION OF A VERY CUMBERSOME ADMINISTRATIVE

PROCESS BEFORE PENAL ACTION CAN BE TAKEN AGAINST EVADERS, IS NOT VERY EFFECTIVE. IT TAKES MUCH TOO LONG FOR THE ADMINISTRATIVE PROCESS TO BE COMPLETED. THE MINISTER IS NOW THINKING ABOUT PROPOSING LEGISLATION WHICH WOULD DIVIDE THE ADMINISTRATIVE FROM THE PENAL ASPECTS AND HAVE ACTIONS BEGIN IN BOTH DIRECTIONS SIMULTANEOUSLY.

4. REFERRING TO THE EVASION OF VALUE-ADDED TAX WHICH HE BELIEVED WAS SUBSTANTIAL, THE MINISTER PLANS TO PROPOSE TIGHTER CONTROLS, BOTH IN THE MOVEMENT AS WELL AS IN THE SALE OF MERCHANDISE. WITH RESPECT TO ITS MOVEMENTHE EXPECTS TO RECOMMEND THAT ALL GOODS IN TRANSIT BE ACCOMPANIED BY APPROPRIATE DOCUMENTATION. WHILE WITH RESPECT TO THE SALE OF MERCHANDISE, HE IS STUDYING THE POSSIBILITY OF REQUIRING FISCAL RECEIPTS AND CONTROLS ON CASH REGISTERS.

5. THE AMBASSADOR TOOK THE OCCASION TO RAISE WITH THE MINISTER SOME OUTSTANDING BILATERAL MATTERS. HE RECONFIRMED TO THE MINISTER THE OFFER OF THE IRS TO CONTINUE ITS COOPERATIVE EFFORTS WITH THE MINISTRY OF FINANCE, SHARING ITS KNOWLEDGE AND EXPERTISE. THE MINISTER SAID HE VERY MUCH APPRECIATED THE ASSISTANCE ALREADY GRANTED AND INDICATED THAT HE FOUND THE REPORT PREPARED BY THE GROUP THAT LIMITED OFFICIAL USE

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WENT TO WASHINGTON LAST NOVEMBER MOST USEFUL. DISCUSSING WAYS THIS COOPERATION COULD BE CONTINUED, THE MINISTER INDICATED HE MIGHT SEND ANOTHER TECHNICAL MISSION, PERHAPS BEFORE SEPTEMBER, AND A HIGHER LEVEL POLITICAL GROUP LATER IN THE FALL.

6. THE AMBASSADOR THEN MENTIONED TO THE MINISTER THE PROBLEM FACED BY AMERICAN CULTURAL INSTITUTIONS IN ITALY, NOTING THAT PRESENTLY THESE INSTITUTIONS ARE FACED WITH AN UNCERTAIN FISCAL SITUATION. HE REFERRED TO OUR EFFORTS WITH MINISTER PANDOLFI IN TRYING TO USE THE DOUBLE TAXATION TREATY AS A VEHICLE TO CLARIFY THE FISCAL STATUS OF THESE INSTITUTIONS. THE AMBASSADOR REFERRED IN GENERAL TERMS TO THE PROPOSAL WE HAVE MADE TO THE MINISTRY OF FINANCE AND ASKED FORTHE MINISTER'S SUPPORT. THE MINISTER REPLIED THAT HE WHOLEHEARTEDLY FAVORS INCREASED CULTURAL EXCHANGES BETWEEN THE US AND ITALY AND WOULD DO EVERYTHING POSSIBLE TO SUPPORT OUR EFFORTS IN THIS REGARD.

7. COMMENT. THE MINISTER SEEMD TO BE VERY MUCH

ON TOP OF THE PROBLEMS HE IS FACING IN HIS
NEW JOB. HE GAVE EVERY INDICATION THAT HE PLANS TO
PUSH AHEAD WITH MANY OF THE REFORMS THAT PANDOLFI
HAD BEGUN. WHILE WE HAVE READ
ABOUT, AND REPORTED ON, SOME OF THE CRITICISMS
LEVIED AGAINST HIS SHIFT TO THE MINISTRY OF FINANCE,
OUR LUNCHEON DISCUSSION LEADS US TO BELIEVE THAT
HIS PERFORMANCE MAY TURN OUT TO BE BETTER THAN
ANTICIPATED BY MANY. GARDNER

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